

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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In the Matter of the Application of San Diego Gas &
Electric Company and Southern California Gas
Company for Authority to Integrate Their Gas
Transmission Rates, Establish Firm Access Rights, and
Provide Off-System Gas Transportation Services.

A.04-12-004 (Phase II)

**SOUTHERN CALIFORNIA GENERATION COALITION
REPLY TO COMMENTS ON PROPOSED DECISION**

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Dated: November 27, 2006

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In accordance with Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the Southern California Generation Coalition (“SCGC”) respectfully submits this reply to various comments on the Proposed Decision (“PD”) of Administrative Law Judge (“ALJ”) Wong and Alternate Draft Decision (“ADD”) of Commissioner Brown.¹

Twenty comments were filed. SCGC particularly commends to the Commission’s attention the comments filed by the Division of Ratepayer Advocates (“DRA”), the Department of General Services (“DGS”), and Coral Energy Resources, Inc. (“Coral”). These parties as well as others such as BHP Billiton LNG support rejection of the “firm access rights” (“FAR”) program, as does SCGC. Other parties, primarily, the group that sponsored Mr. Beach’s testimony – the Indicated Producers (“IP”), the California Manufacturers and Technology Association (“CMTA”), Watson Cogeneration Company (“Watson”), and the California Cogeneration Council (“CCC”) – strongly oppose the program that would be adopted by the PD and ADD. They support a different FAR program that would exclude a revenue crediting mechanism. The applicants, the Southern California Gas Company (“SoCalGas”) and San Diego Gas and Electric Company (“SDG&E”), as well as their supporting brethren utilities, Southern California Edison Company (“SCE”) and Pacific Gas and Electric Company (“PG&E”), seem pleased with the PD and ADD on FAR issues. The applicants and PG&E submitted only limited comments. SCE filed no comments at all. The applicants have good reason to be content with the PD and ADD on FAR issues. If the PD or ADD were to be adopted, the applicants would gain substantial benefits that any regulated utility would appreciate: enhanced revenues, reduced risk at customers’ expense, and a shift of planning responsibility from the utility to customers.

I. ALLEGATIONS OF NEED FOR A FAR PROGRAM EITHER LACK RECORD SUPPORT OR CONFLICT WITH THE RECORD.

One of the hallmarks of this proceeding is the utter failure of FAR proponents to establish a need to shift from the current market structure to a FAR program. The pattern continued in the comments. For example, IP claim that a “FAR system will facilitate the use of long-term contracts.” IP at 1.

¹ The PD and APD are the same except for the passage regarding peaking rate issues.
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Customers such as the SCGC members already hold long-term contracts for both supply and for interstate pipeline gas transportation service. There is no evidence in the record to support the proposition that a FAR regime would lead to more long-term contracts. Indeed, the evidence is to the contrary. Insofar as firm access rights on SoCalGas would trump contract demand rights to interstate pipelines, the FAR program would *discourage* long-term upstream contracts. Exhibit (“Ex.”) 93 at 4 (SCGC-Yap); Ex. 55 at 8 (Dyer-Coral).

Likewise, IP claim a FAR program would facilitate “the entry of new supplies.” *Id.* To the contrary, it is undisputed that the FAR program at issue in this proceeding would result in at least two pricing points, the current citygate or “border” market and a new citygate market. There could be numerous other submarkets at various receipt points. Ex. 53 at 11 (BHP Billiton-Pickel). That would fracture the current highly liquid, unified SoCalGas “border” market, making southern California less attractive than it is now for new suppliers.

PG&E claims the PG&E system fared better during the 2000-2001 energy crisis because PG&E had the Gas Accord in place. In fact, the decisive difference between PG&E and SoCalGas during the energy crisis was that the PG&E system was not 100 percent utilized at maximum capacity, but SoCalGas was. Furthermore, PG&E still experienced a price spike, albeit not as great as SoCalGas’. *See* Ex. 49, appended as Attachment (“Att.”) A. The presence or absence of a FAR-type program was irrelevant.

II. THE ARGUMENTS FOR A 15.75¢ FAR CHARGE IGNORE THE RECORD AND ARE CONTRADICTIONARY.

Mr. Beach’s sponsors continue to advocate adoption of a 15.75¢/dth/d firm access charge (“FAC”). The PD and ADD reject the charge as being “too high.” PD/ADD at 86. CMTA, IP, and Watson/CCC say it is not too high, but none of them address the revenues that SoCalGas/SDG&E would recover through Mr. Beach’s 15.75¢/dth/d FAC and 18.9¢/dth (120 percent of the FAC) interruptible access charge (“IAC”). Mr. Beach would remove \$157.3 million from SoCalGas/SDG&E’s existing transportation revenue requirement. However, if the full 3,875 MMcf/d of firm access rights were sold, which SCGC believes to be a realistic possibility, SoCalGas/SDG&E would recover \$226.3 million. *See* Att. B.

The sale of interruptible access could push revenues much higher. SoCalGas would retain 10 percent of IAC revenues up to \$5 million. PD/ADD at 88. Experience with the unbundled storage

program shows that SoCalGas responds to incentives enthusiastically. *See* Ex. 31, appended as Att. C. SoCalGas/SDG&E would be likely to undercut the secondary market for access rights by selling interruptible access aggressively. FAC and IAC revenues combined could reach or exceed \$300 million.

IP do not seem to be concerned about the substantial SoCalGas/SDG&E over-recovery that would be likely to result from adopting Mr. Beach's proposal. IP continue to argue that SoCalGas/SDG&E should be "at risk" for recovering the "unbundled" \$157.3 million, in which case SoCalGas/SDG&E would keep any over-recovered amounts. It appears that the producers are unconcerned because they would not be adversely affected by the high FAC and IAC that they might pay. They would simply raise the price of the gas they sell at the new citygate to recover the cost of the access charges. Ex. 50 at 20 (DRA-Sabino). That is what happens on the PG&E system. *See* Att. B.

In contrast to IP, CMTA appears to have dropped its advocacy of putting SoCalGas/SDG&E "at risk" for recovery of the "unbundled" \$157.3 million transmission revenue requirement. CMTA Comment at 4. If not put at risk, SoCalGas/SDG&E would return any over-recovery (except up to \$5 million of IAC revenues) through a balancing account. Insofar as the over-recovery would reduce class average volumetric rates, industrial customers who buy gas at the new citygate would benefit from the return of any over-recovery in addition to having their transportation rates reduced by the "unbundling" of 15.75¢. Much of the over-recovery would come from low-load factor electric generators ("EGs") who must acquire firm access rights and pay the FAC due to reliability requirements. The EGs would end up subsidizing industrial customers who buy at the new citygate.

CMTA retorts that, currently, low-load factor customers are subsidized because they "can swing on the system whenever they want and pay only for actual usage." *Id.* at 3. CMTA completely ignores the load diversity benefits of having countercyclical EG load on the gas utility system, and CMTA ignores the fact that low-load factor customers pay rates based on fully allocated costs. EGs already bear their full fair share of the SoCalGas/SDG&E revenue requirement.

As a last argument for Mr. Beach's 15.75¢/dth/d charge, IP contends that the charge would avoid the pitfall of *Union Pacific Fuels* insofar as it would be a transportation charge, not an access charge. IP Comment at 9. This is contradicted by IP's statement that IP would be willing to accept a 5¢/dth/d

charge. IP at 10. (Watson/CCC say they would “compromise” at 10¢/dth/d. Watson/CCC at 5.)

This flexibility shows that, unlike the PG&E Gas Accord charges, the Beach charge is not tied to any transportation service that has a defined cost. It is an access charge that is unrelated to any physical transportation service. Regardless of nomenclature, it is just like the Wheeler Ridge access charge that was found to be unlawful in *Union Pacific Fuels*.

III. CMTA CONTRADICTORILY ARGUES FOR A 75 PERCENT LIMITATION ON RECEIPT POINT CAPACITY AVAILABILITY AND THEN ARGUES AGAINST AN EG SET-ASIDE.

The PD and ADD limit the amount of capacity that would be available at each receipt point in Steps 1 and 2 of the open season to “the historical utilization by month at each individual receipt point” from the last five calendar years. PD/ADD at 100. CMTA argues that, instead, the limitation should be 75 percent. CMTA at 7-8. CMTA goes on to argue that there should be no Step 1 set-aside for EGs that hold upstream capacity because the set-aside would consume all or most of the 75 percent of capacity that would be available at Kramer Junction (386 MMcf/d out of an available 375 MMcf/d) and Wheeler Ridge (393 MMcf/d out of an available 494 MMcf/d). CMTA at 6, Table 1.

SCGC has not been able to verify the numbers in CMTA’s Comment. However, regardless of accuracy, CMTA ignores two points. First, the figures used by SoCalGas for Wheeler Ridge capacity (765 MMcf/d) is low in relation to actually-experienced capacity. Gas destined for Kramer Junction on Kern River can be delivered at Wheeler Ridge. Second, CMTA compares its alleged set-aside numbers to 75 percent of Kramer Junction and Wheeler Ridge capacity. Instead of rejecting set-asides, the Commission should reject any limit on the receipt point capacity that is made available to SoCalGas/SDG&E native load customers in Steps 1 and 2. EGs need access rights to match commitments to upstream capacity. The Commission should not approve a scheme that would withhold capacity from customers who have paid for it in order to make the capacity available to non-customers in the proposed Step 3.

IV. THE INCOMPATIBILITY BETWEEN THE FAR PROGRAM AND THE JOINT PROPOSAL SHOULD BE RESOLVED BY REJECTING FAR.

The PD melds the FAR program and the Joint Proposal by permitting SoCalGas/SDG&E to grant firm access rights to funding parties that pay for displacement capacity. PD at 73-74. In the Southern Zone, this could result in the core getting a set-aside of 480 MMcf/d out of El Paso at Ehrenberg, Coral and

Sempra LNG getting a set-aside of 400 MMcf/d at Otay Mesa, and North Baja getting a set-aside of 500 MMcf/d at Blythe. The set-asides would total more than the total 1,210 MMcf/d capacity of the Southern System. The PD addresses the problem by providing that the holders of firm access rights on the Southern System shall be subject to prorationing. PD at 73. SoCalGas/SDG&E ask that the PD be modified so that North Baja, Coral, and Sempra LNG bear the full brunt of prorationing in the Southern Zone: “SDG&E and SoCalGas propose a minor modification to the PD to confirm that the rights received by a ‘displacement’ funding party do not diminish primary FAR held by other parties, such as FAR the core would receive as a set-aside in the initial open season to match its current upstream pipeline contracts at the Blythe/Ehrenberg receipt point.” SoCalGas/SDG&E at 7.

The SoCalGas/SDG&E request illustrates the absurdity created by the PD/ADD attempt to meld the Joint Proposal and the FAR program: holders of “firm access rights” would pay the FAC, but would be subject to the same sort of prorationing that FAR proponents contend is the grievous failing of the current system. It would be unconscionable to adopt a program as counterproductive as the FAR program only to be left with the one problem, prorationing, that the program was supposed to eliminate. The better course would be to reject FAR and approve the Joint Proposal, which is completely compatible with the current market structure.

V. CONCLUSION.

For the reasons set forth above, SCGC respectfully requests that the Commission reject rather than adopt the FAR proposal, and that the Commission adopt the Joint Proposal.

Respectfully submitted,

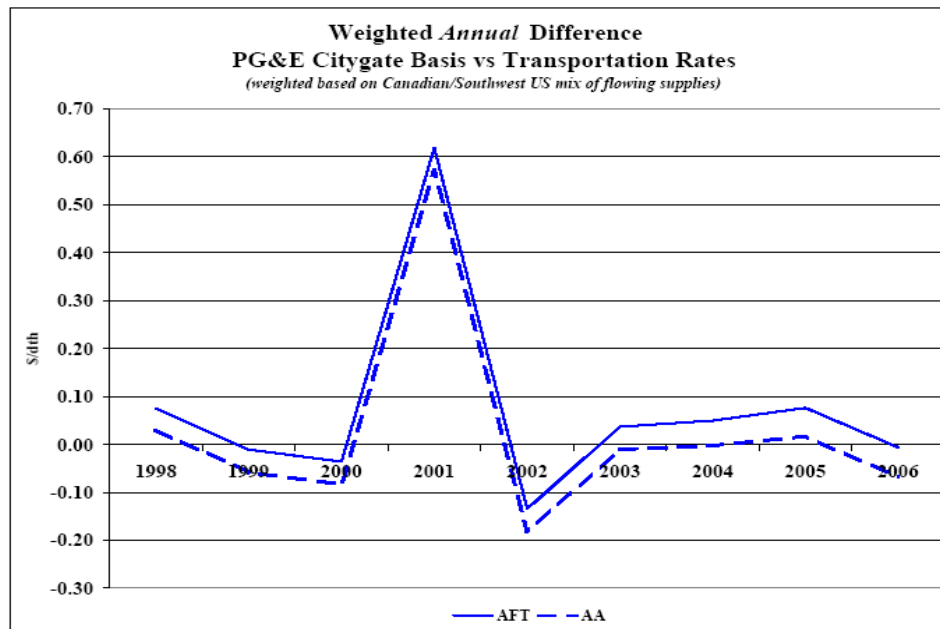
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Dated: November 27, 2006

ATTACHMENT A



Attachment B: Revenues Generated by FAR Proposals

	SoCalGas FAR Proposal	WICC FAR Proposal
Proposed FAC Reservation Rate	\$0.05/dth/day	\$0.1575/dth/day
Proposed IAC Rate	\$0.05/ dth	\$0.1890/ dth
Revenues if sold 66% of FAR capacity /1	\$47,500,000	\$149,625,000
Revenues if sold 100% of FAR capacity	\$71,850,250	\$226,328,288
Revenues if sold 10% of capacity @ IT	\$7,185,025	\$27,159,395
Revenues of sold 20% of capacity @ IT	\$14,370,050	\$54,318,789
Total Revenues Earned under Scenarios:		
(1) FAR Capacity Sold at 66%, plus 10% @IT	\$54,685,025	\$176,784,395
(2) FAR Capacity Sold at 100%, plus 10% @IT	\$79,035,275	\$253,487,682
(3) FAR Capacity Sold at 100%, plus 20% @IT	\$86,220,300	\$280,647,077
Reduction in Volumetric Transportation Rates		
(1) FAR Capacity Sold at 66%, plus 10% @IT	\$52,888,769	\$157,300,000
(2) FAR Capacity Sold at 100%, plus 10% @IT	\$77,239,019	\$157,300,000
(3) FAR Capacity Sold at 100%, plus 20% @IT	\$82,627,788	\$157,300,000
Net Increase in SoCalGas Earnings		
(1) FAR Capacity Sold at 66%, plus 10% @IT	\$1,796,256	\$19,484,395
(2) FAR Capacity Sold at 100%, plus 10% @IT	\$1,796,256	\$96,187,682
(3) FAR Capacity Sold at 100%, plus 20% @IT	\$3,592,513	\$123,347,077

/1 This level of capacity utilization corresponds to the forecast volume in current BCAP rates.

ATTACHMENT C

UNBUNDLED STORAGE		
	Allocated Cost \$MM	Revenues \$MM
2000	21	19.6
2001	21	33.3
2002	21	42.4
2003	21	47.4
2004	21	49.2

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the **SOUTHERN CALIFORNIA GENERATION COALITION REPLY TO COMMENTS ON PROPOSED DECISION** on the service list established for A.04-12-004 by serving a copy to each party by electronic mail, or by mailing a properly addressed copy by first-class mail with postage prepaid to each party unable to accept service by electronic mail.

Executed on November 27, 2006, at Los Angeles, California.

/s/ Rosemarie F. McBride

Rosemarie F. McBride

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